



Legislative Finance Committee

57th Montana Legislature

Room 110, State Capitol, • P.O. Box 201711 • Helena, MT 59620-1711 • (406) 444-2986 • FAX (406) 444-3036

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MINUTES

March 14 & 15, 2002
Hearing Room 102, State Capitol
Helena, Montana

ROLL CALL FOR MARCH 14, 2002

Rep. Dave Lewis
Rep. Gary Forrester
Rep. Joey Jayne
Rep. Dave Kasten
Rep. William Price
Rep. Joe Tropila
Sen. Greg Jergeson
Sen. Royal Johnson
Sen. Bob Keenan
Sen. Linda Nelson
Sen. Emily Stonington
Sen. Tom Zook
Clayton Schenck, Legislative Fiscal Analyst
Cindy Campbell, Committee Secretary

Call to Order (Tape 1A-010)

The 181st meeting of the Legislative Finance Committee (LFC) was called to order at 10:10 a.m. by Representative Dave Lewis, Chair, on Thursday, March 14, 2002. The meeting was held in Hearing Room 102 of the State Capitol, Helena, Montana.

1. Approval of Minutes for December 6 & 7, 2002 (Tape 1A-063)

Senator Zook moved the minutes of the December 6 & 7, 2002, meeting be approved as presented. **VOTE:** The motion carried unanimously.

2. Overview: General Fund Status – Revenue Trends and Expenditures Update (Tape 1A-071)

Clayton Schenck, Director of the Legislative Fiscal Division (LFD), presented an overview of the general fund status, including revenue trends and expenditures.

3. General Fund Ending Fund Balance and Revenue Trends (Tape 1A-112)

Terry Johnson, Principal Fiscal Analyst, presented a detailed report on the general fund ending fund balance and revenue trends. (Exhibit 1-1A) He reported the final unreserved general fund account balance for fiscal year end 2001 was \$172.9 million, which is approximately \$0.6 million less than the preliminary estimate supplied to the committee in October 2001. His report also included detailed information about fiscal 2002 general fund revenue trends. In summary, he told the members of the LFC that based on data through the end of February 2002, general fund revenue collections continue to show signs of weakening growth rates.

Mr. Johnson distributed a table outlining the 2003 biennium general fund outlook. (Exhibit 1B) He highlighted two figures on the table: 1) the potential revenue shortfall 2003 biennium figure of a negative \$63.2 million, which assumes fiscal 2002 shortfall continues into fiscal 2003; and 2) Job Creation & Worker Assistance Act impact of a negative \$34.7 million. Mr. Johnson stressed that the figure for the Job Creation & Worker Assistance Act is extremely preliminary at this time as the act was just recently signed into law by Congress. He also pointed out one additional issue not reflected in the table - the budget adopted by the last legislature was structurally imbalanced and additional funds will be needed just to maintain current level costs.

In response to a question by **Representative Lewis**, Mr. Johnson clarified that the predicted ending fund balance at the end of 2003 reflects a \$150 million reduction from the actual ending fund balance in June 2001. **Senator Stonington** asked what caused the \$12 million decrease in statewide property taxes. Mr. Johnson will research this question and send the information to all LFC members.

Chuck Swysgood, Director of the Office of Budget and Program Planning (OBPP), provided the executive response, stating his analysis shows an even dimmer picture. Given the numbers, he predicts a negative ending fund balance and stressed the fact that he does not plan to approve any supplementals at this time. He further stated the executive is \$39 million short of making expenditures for the next biennium. In response to a question by **Representative Lewis** regarding cuts in appropriations, he stated that further reductions in this biennium are a good possibility. Mr. Swysgood responded to other questions from various committee members.

4. Issues with Estimates Used in Fiscal Notes for HB 124 (Tape 1B-468)

Terry Johnson introduced the agenda item, Issues with Estimates Used in Fiscal Notes for HB 124, and provided a summary background. (Exhibit 2) Jim Standaert, Senior Fiscal Analyst, presented additional detailed information and explained that the numbers had changed since the report was presented to the Revenue and Transportation Committee in February. His report included estimated impacts before and after the new information was available. He concluded his report by telling the committee the revised estimate of HB 124's net impact to the general fund is a reduction of \$4.2 million in fiscal 2002 and \$2.8 million in fiscal 2003. Mr. Johnson and Mr. Standaert responded to questions from LFC members.

5. Corrections Population Estimates: Update (Tape 2A-077)

An update on Corrections population estimates was presented by Lorene Thorson, Senior Fiscal Analyst. (Exhibit 3) Joe Williams, Administrator for Centralized Services Division of Department of Corrections (DOC), provided comments to Ms. Thorson's report, explaining reasons for increased prison populations and various solutions being discussed to alleviate potential shortfalls. Ms. Thorson and Mr. Williams answered questions from members of the committee.

6. Fire Suppression Costs Update (Tape 2A-260)

Gary Hamel, Senior Fiscal Analyst, presented an update on fire suppression costs. (Exhibit 4) He reported the fire suppression costs are now \$2.7 million more than he reported at the LFC meeting in December 2001. In his report, Mr. Hamel listed two available sources of authority, one of which is the Governor's emergency fund. **Senator Stonington** asked for a breakdown of

the Governor's emergency fund in relationship to the September 11, 2001, terrorist attacks. Mr. Hamel provided these expenditures at the LFC meeting on Friday, March 15, 2002. (Exhibit 4A)

7. DNRC Supplemental Appropriation Request (Tape 2A-459)

The Department of Natural Resources and Conservation (DNRC) supplemental appropriation request was also presented by Gary Hamel. (Exhibit 5) He reported DNRC submitted a request to transfer \$2.0 million general fund appropriation from fiscal 2003 to fiscal 2002 for wildfire costs. Mr. Hamel explained the request and offered three options for action by the LFC, which were listed on page 5 of Exhibit 5. He also told the committee DNRC will be submitting another supplemental request of \$3.9 million to the LFC at its June 2002 meeting.

MOTION: **Senator Johnson** moved the LFC adopt option 1, which is to inform the Governor that the committee does not raise any issues of statutory compliance with the request.

DISCUSSION: **Senator Stonington** asked for clarification on the process for funding wildfire costs and the reason for the supplemental request in view of the previous statement by Director Swysgood that there would be no supplemental appropriations. **VOTE:** Motion carried unanimously.

8. Department of Public Health and Human Services Budget Status (Tape 2A-681)

Lois Steinbeck and Pat Gervais, Senior Fiscal Analysts, presented a status report on the Department of Public Health and Human Services' (DPHHS) budget. (Exhibit 6 & 6A) Ms. Steinbeck's portion of the report included information regarding: 1) Medicaid Estimates and Cost Increases; 2) Medicaid Targeted Case Management; 3) Tobacco Settlement Constitutional Trust Income; and 4) Federal CHIP Grant. Information in the report presented by Ms. Gervais included: 1) Child Support Enforcement; 2) Disability Services Division – Availability of General Fund, which included a legal opinion regarding the use of available general fund by Greg Petesch, Director of Legal Services (Exhibit 6B); and 3) Cash Assistance Caseload.

Subsequent to their report, Ms. Steinbeck and Ms. Gervais outlined the following issues with possible options for action by the LFC: 1) Ongoing General Fund Short-Falls; 2) Disability

Services Division Refinancing – Available General Fund; and 3) Foster Care Children as Targeted Case Management Group.

John Chappuis, Deputy Director for DPHHS, provided a response on behalf of the department regarding the Medicaid budget. (Exhibit 6C-6E). Hank Hudson, Administrator of the Human and Community Services Division, presented information on DPHHS 2003 biennium TANF spending. (Exhibit 6F) A fact sheet on the Child Support Enforcement Division (CSED) (Exhibit 6G) was presented by Lonnie Olson, Administrator of CSED.

Advocates and members of the public who offered testimony were: Judy Smith, Center for Policy Analysis and Community Change; Patricia Eisenrigger; Mary Caferro; Tara Garva; Carrie McDowell; Lora Dalton and Alana Mueller, MT People's Action; Dr. Arlene Parisot, Director for Workforce Development; Jim Martin; and Tony Duma. (Exhibits 7 – 7C)

Senator John Cobb offered testimony, asking the LFC to recommend the Governor call a special session on this issue; and if not that, at a minimum, recommend to the Governor opposition to any further cuts in CSED with a request for a supplemental appropriation to cover the shortfall. He further requested that if the LFC declined to vote for a special session as described previously, that it vote to recommend a special session to move excess money from HB 124 and to the general fund. **Senator Cobb** responded to questions from committee members regarding his recommendations.

Upon conclusion of **Senator Cobb's** testimony, Ms. Steinbeck, Ms. Gervais, and representatives of DPHHS responded to questions from various LFC members.

MOTION: **Senator Stonington** moved the LFC recommend to the Governor's office they adequately fund CSED so as not to jeopardize the federal TANF funds. **DISCUSSION:** Members of the LFC discussed this issue, asking for clarification on various aspects from Ms. Gervais, Director Swysgood and representatives of DPHHS. **ROLL CALL VOTE:** Motion failed with **Representatives Lewis, Kasten, Price and Senators Johnson, Keenan and Zook** voting no. (Tape 3B-356)

9. Federal Aid Highway Funding: Federal Fiscal Year 2003 Reduction (Tape 3B-478)

Greg DeWitt, Senior Fiscal Analyst, reported to the committee on the federal aid highway funding. (Exhibit 8) He told the members that although the federal budget is not finalized for fiscal 2003, Montana will likely see fewer federal-aid highway dollars during federal fiscal year 2003. His report provided information on the rationale, dollar amount, and impacts of the potential reduction. He also reported that there are initiatives in Congress to fully or partially eliminate this reduction.

Dave Galt, Director of Department of Transportation (DOT), provided a response on behalf of the department, stating that the effects of this \$36 million reduction are very real and will affect DOT's ability to complete highway projects both this year and next. In response to a question by **Senator Stonington** regarding implications on the job market, Mr. Galt stated if the predicted cuts are realized in full, 2,800 highway-related jobs could be lost in Montana.

10. Status of Research and Commercialization Funds (Tape 4A-030)

Information regarding the Montana Board of Research and Commercialization Technology was presented to the LFC as requested by the committee members at the meeting in December, 2001. (Exhibit 9) Todd Younkin, Senior Fiscal Analyst, introduced Dave Desch, Department of Commerce, who was available to answer questions.

11. Use of Governor's Emergency Fund Related to Declared Emergencies (Tape 4A-047)

Todd Younkin, Senior Fiscal Analyst, presented a report on the use of the Governor's emergency fund related to declared emergencies. (Exhibit 10) His report included a background summary, issues with associated questions and options for possible action by the LFC. The issues in the report were addressed in the context of events and timelines including and following the September 11, terrorist attacks. Mr. Younkin's presentation also included a legal opinion from Greg Petesch regarding the expenditures from the Governor's emergency fund (Exhibit 10A). Mr. Younkin responded to questions from various LFC members.

MOTION: Representative Kasten moved that the LFC choose option 1, which is to take no action. **DISCUSSION:** Committee members discussed alternative options and raised the question of what other states are doing to deal with this problem. **Representative Lewis** asked Mr. Younkin to conduct research on how other states are handling this situation and report back to the LFC. **VOTE:** Motion passed with **Senator Jergeson** voting no.

12. Internal Service Fund Rate Recommendations (Tape 4A-450)

The issue of internal service fund rate recommendations was presented by Greg DeWitt and Todd Younkin. (Exhibit 11) At the December 6, 2001, LFC meeting, LFD staff presented a report which documented a review of the processes for rate request submissions and the legislature's review and approval of rates for internal service funds. Staff identified shortcomings of the current internal service rate-setting process and presented recommendations for process improvements that would enable the legislature to more effectively accomplish these duties. At the December meeting, the LFC concurred in three staff recommendations associated with information gathering and presentation. However, the committee deferred until the March 2002 meeting two other recommendations regarding the internal service rate decisions.

The LFD report (Exhibit 11) included recommendations to improve the decision process, working capital reserve rates, program manager concerns, statute change (a process to increase rates during the interim), and a summary of the key issues. Mr. DeWitt responded to questions from committee members.

Jane Hamman, OBPP, provided an executive response, explaining their view on these recommendations. (Exhibit 11A) Steve Bender, Deputy Director for Department of Administration (DOA), responded on behalf of the department, explaining the past process and commenting on the current process.

LFC members discussed the two recommendations for improving the decision process, which were presented on page 2 of the LFC report (Exhibit 11). As stated above, these recommendations were deferred from the LFC meeting in December 2001. **MOTION:** (5A-

305): **Senator Johnson** moved that the LFC not take a position on these recommendations.

VOTE: Motion carried unanimously.

13. District Courts Financing – State Assumption: Update (Tape 4B-268)

Taryn Purdy, Principal Fiscal Analyst, presented an introduction on district courts financing – state assumption. She provided background information on this issue and presented questions posed to the Supreme Court for the purpose of ascertaining an update on the fiscal aspects of the project, and fiscal issues pertinent to and resulting from this effort. (Exhibit 12)

Chief Justice Karla Gray addressed the committee in response to Ms. Purdy's questions. (Exhibit 12A) In both her written response and verbal response to the LFC members, Chief Justice Gray stated the Supreme Court will have SB 176 ready to go on July 1, 2002. She told the committee that although she does anticipate problems, they will do their best to handle them as quickly and efficiently as possible. She introduced the new Court Administrator, Rick Lewis, and Administrative Services Director, Lisa Smith. Ms. Smith summarized the responses, which were detailed in Exhibit 12A. Chief Justice Gray and Lisa Smith responded to questions from LFC members.

FRIDAY, MARCH 15, 2002

ROLL CALL FOR MARCH 15, 2002

Rep. Dave Lewis

Rep. Gary Forrester

Rep. Joey Jayne

Rep. Dave Kasten

Rep. William Price

Rep. Joe Tropila

Sen. Greg Jergeson

Sen. Royal Johnson

Sen. Bob Keenan

Sen. Linda Nelson

Sen. Emily Stonington

Sen. Tom Zook

Clayton Schenck, Legislative Fiscal Analyst

Cindy Campbell, Committee Secretary

Call to Order (Tape 5A-340)

The 181st meeting of the Legislative Finance Committee (LFC) reconvened on Friday, March 15, 2002, and was called to order at 8:10 a.m. by **Representative Dave Lewis**, Chair, in Hearing Room 102 of the State Capitol, Helena, Montana.

14. ProFiles System: Update (Tape 5A-344)

Lorene Thorson presented an update on DOC's ProFile system. (Exhibit 13) Her report included a background summary, status of the project, a summary conclusion, and options for possible action by the LFC. The status portion of the report contained the following three sections: 1) timeline status; 2) financial status; and 3) components of the system and data needs status. Ms. Thorson summarized her report for the committee and explained the two options, as listed on page 6 of Exhibit 13.

Joe Williams provided comments on behalf of DOC. He distributed three documents, which contained statistical data on Montana's prison population. (Exhibits 13A-13C) Mr. Williams updated the LFC on current programs and projects being implemented to attempt to resolve the problems with the prison population. He then responded to questions from committee members.

MOTION: Senator Johnson moved that the LFC accept both options as listed on page 6 of Ms. Thorson's report. **VOTE:** Motion carried unanimously.

15. Information Technology Management Update (Tape 5A-358)

Proposal Process for Committee Involvement with IT Issues – Greg DeWitt presented a report on committee involvement with IT issues. (Exhibit 14) He provided a summary background and proposed process for consideration by the LFC. Mr. DeWitt explained that SB 131, passed by the 2001 legislature, added duties and powers regarding IT policies of DOA to the existing powers and duties of the LFC. He explained the additional duties and powers and then offered a proposed process by which the committee could facilitate interactions between the committee and key participants involved in the committee's new oversight role regarding IT policies of state government. The elements of the process were listed on page 2 of Exhibit 14.

MOTION: **Senator Jergeson** moved the LFC concur with the proposed process for interaction with the CIO as presented by Greg DeWitt and documented on page 2 of Exhibit 14. **VOTE:** Motion carried unanimously.

State IT Strategic Plan – Brian Wolf, CIO, presented the proposed State of Montana Strategic Plan for Information Technology, 2004-2005 (Exhibit 15 & 15A) Following his presentation, Mr. Wolf responded to questions from various LFC members.

MOTION: **Senator Johnson** moved that the LFC receive the plan and suggest that this direction properly executed is probably the way the State of Montana wants to go. **VOTE:** Motion carried unanimously. While not part of the motion, the committee also wished to express that concurrence in the direction does not imply an obligation by the legislature to fund the initiatives of the plan.

16. Wildland Fire Suppression Funding Methodology: HJR 42 (Tape 6B-100)

A report on wildland fire suppression funding methodology was presented by Gary Hamel. (Exhibit 16) He provided a background summary, explaining that House Joint Resolution 42 directed legislative staff to study alternatives for funding DNRC's overall fire management program including the costs related to wildfire suppression. Mr. Hamel's report provided an overview of the fire funding process and its impacts on DNRC, as well as alternatives to the current funding methodology.

Discussion was held and Mr. Hamel answered questions from LFC members. **MOTION:** **Senator Zook** moved the LFC accept options 1 and 2, as presented by Mr. Hamel on pages 6 & 7 of Exhibit 16. **VOTE:** Motion carried unanimously.

Krista Evans, Research Analyst for the Legislative Environmental Policy Office, addressed the committee regarding HJR 42. She provided some background information on the study and explained that the legislature ultimately assigned it to the Environmental Quality Council (EQC). Consequently, the EQC deferred the funding issues pertaining to the study to the LFC. Ms. Evans referred to a letter dated March 13, 2002 from Senator Bea McCarthy, Chair of EQC, to

Representative Lewis and the LFC, which requests “LFC’s cooperation and coordination in completion of the HJ42 Fire Suppression Funding Study”. (Exhibit 16A)

17. Senate Bill 495: Impacts and Implications (Tape 6B-730)

A report titled, Senate Bill 495: Impacts and Implications, written by Roger Lloyd, Senior Fiscal Analyst, was presented to the committee. (Exhibit 17) Mr. Lloyd explained in detail the five issues and accompanying options listed on page 7 of his report. These issues and options incorporated information and recommendations from Greg Petesch’s legal opinion regarding SB 495. Clayton Schenck stated that the bill is clear on the issue of holding the general fund harmless.

MOTION: Senator Stonington moved that proposed legislation be drafted with regard to SB 495 which incorporates language to make it clear that the general fund be held harmless.

VOTE: Motion carried unanimously.

Carroll South, Executive Director of the Board of Investments, and Jason Thielman, Chief Deputy for the Secretary of State, provided comments and responded to questions from committee members.

LFC members discussed the issues with SB 495 and possible options. **MOTION: Senator Stonington** moved that legislation be drafted with regard to SB 495, which encompasses the three legal issues presented on page 7 of Mr. Lloyd’s report. **VOTE:** Motion carried unanimously.

Joe Lamson, Office of Public Instruction, provided comments regarding the schools’ interest in SB 495 and his thoughts regarding the intent of this legislation.

18. Status of Interim Studies (Tape 7A-495)

Clayton Schenck presented a summary update on the following subcommittees:

1. HJR 1: Mental Health Services (Exhibit 18)
2. POINTS Subcommittee (Exhibit 19)
3. Education Funding Study (Exhibit 20)

19. Informational Reports (Tape 7A-549)

Taryn Purdy presented the budget amendments (Exhibit 21) and operating plan changes and program transfers (Exhibit 22). There were no issues identified by the LFD staff. The required reports were included in the LFC notebooks but not formally presented. (Exhibit 23)

20. Committee Business (Tape 7A-569)

Clayton Schenck presented the items under committee business. (Exhibit 24)

Representative Lewis will write a letter to the Budget Director on behalf of the LFC asking him to review some options for reductions in the DPHHS budget.

Next LFC Meeting

The next meeting of the LFC will be held on June 6 & 7, 2002.

Adjournment

MOTION: **Representative Forrester** moved to adjourn. **VOTE:** Motion carried unanimously. Meeting adjourned at 11:45 a.m.

Representative Dave Lewis, Chairman

Cindy Campbell, Committee Secretary